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cepted valuation. A decline in the market value of property represented by the debt, therefore, means a real loss to the debtor, although, so far as it is due to increased efficiency of industry, it may be only a nominal loss to the man who has to do with his own capital only, and may be, and generally is, a source of distinct though unrecognized gain to the lender. The borrower assumes the risk of depreciation of the property represented by the debt.

In a case such as has been witnessed in this country during the past ten or twelve years, when there has been a pretty general decline in the cost of production of staple commodities — as compared with the standard of value — and a consequent decline in the nominal earning capacity of property engaged in production, of perhaps 30 per cent., this factor is of the very gravest consequence. Especially is this true in the case of a community where so great a proportion of capital is represented by interest-bearing securities.

T. B. VEBLEN.

TAXATION IN JAPAN.

During the entire feudal period of Japan down to the time of the Restoration (1868) the taxes of the people were paid in kind, and mainly in the form of rice. A sharp distinction was drawn between wet, or rice, land (*ta*) and dry land (*hata*), the former being far more valuable and yielding the bulk of the revenue. The taxes were, in most cases, paid to the government of the feudal lords, whose power was generally in proportion to their revenues, which were regularly reckoned as so many *koku* (five bushels) of rice. The theory then vaguely held was that the land belonged to the lord of the province; and the taxes were accordingly a form of rent paid to the *daimyo*, or landlord. The proportion of the rice crops paid in the shape of rent or taxes varied with the customs of each province or with the humors of the feudal lord;

but, in general, it may be said to have been about six-tenths of the total crop.

With these revenues the feudal nobility supported large retinues of retainers (*samurai*) and officials, who served to keep the peace and carry on the administration within the boundaries of the *daimyos*' fiefs. The average income of the richer feudal lords was about 100,000 *koku* of rice; but in certain cases, as in that of the *daimyo* of Satsuma, the income was no less than 700,000 *koku*. Computed at the rate of four dollars a *koku*, such an income amounted to nearly 3,000,000 dollars annually, and brought with it an amount of power that proved a constant menace to the Shogunate itself. The income of four-fifths of the *daimyos*, however, seldom rose to 50,000 *koku*.

Three years after the restoration of the imperial house, the feudal *régime* came to an end, and with it the whole system of feudal administration and taxation. Between the downfall of the old system and the establishment of the new there was a period of great confusion in the financial affairs of the empire. It was clearly perceived that, if there was to be a national and centralized administration, the old method of collecting taxes in kind would have to be abandoned and a system of money taxes substituted. The feudal lords that abdicated were compensated for their loss of rent by grants of government bonds, very much in the same way that the Russian land-owners were compensated for their losses at the time of the liberation of the serfs. The bonds were divided among the *daimyos* and their retainers in sums roughly proportioned to their former net incomes. Also all the officials of the clan government, who lost by the political revolution, were pensioned; and in this way a large issue of bonds had to be made, which formed the nucleus of the present national debt of Japan.

As soon as it was seen that payment in kind was impracticable, steps were taken to reform the system. In the sixth year of Meiji (1873) the imperial decree was issued that introduced a new era in the land taxation of Japan. According to the terms of this decree a valuation was to be made of all the land in cultivation, based on estimates of its fertility, its convenience of situation, and other circumstances. These

estimates, in most cases, were made by men of local reputation, and were considered very accurate at the time. A tax of 3 per cent. payable in money was assessed on the capitalized value of the land. It was, however, several years before this law could be put into execution, and meanwhile the most contradictory measures were carried out by the government. In some cases, when the price of rice was high, the taxes were still demanded in kind, while in other cases taxes were taken in money. Among the farming population there was great discontent, which led to riots, and in one instance to open rebellion. When, finally, the law was regularly carried out, it was found that the rate of taxation was too high; and in the year 1877 the rate was reduced to $2\frac{1}{2}$ per cent., where it has remained ever since.

This land tax is by far the most important source of revenue existing in Japan. It produces, generally, more than 40,000,000 yen * annually out of the total of only 75,000,000 yen; and, since it is a definite percentage of a fixed value of land, the amount varies little from year to year. The cadaster drawn up in the year 1873, originally imperfect, has become more and more faulty on account of the enormous economic changes of the last twenty years, until at present its reform is urgently demanded by a large class of people, especially in those provinces that have been benefited least by the railways. On the other hand, those whose lands are undervalued oppose any reform; while still another party claim that it makes little difference what the inequalities of taxation are, provided they are not too great, since people adjust themselves to these in the course of time. The price of land, they say, is now proportional to the taxes, and to institute a reform would inflict greater injuries than it would cure. The true objection to any reform seems to be the heavy expense that a careful and detailed land valuation would involve. To be authoritative the reformed cadaster would have to be carried out with much greater care than the former one; it would be the work of years, requiring men of rare ability and integrity; and it

* The silver yen, at present legal tender in Japan, has the standard weight of 416 grains Troy, 900 fine, and, at the current price of silver, is worth $78\frac{1}{2}$ cent American gold.

has been estimated that such a measure would cost at least 6,500,000 yen. Those opposed to reform claim that the benefits to be obtained from a revaluation would not be worth such an outlay, especially since land values for the next twenty years will continue to fluctuate with the development of commerce and industry. All of these arguments have a certain weight; and, though it cannot be denied that many inequalities exist at present in the distribution of the land tax, yet it is not certain that any measure can secure justice for any length of time. With the growth of railways and the increasing foreign demand for many of her products, new centres of trade will continue to spring up in Japan, and, in consequence, fresh inequalities in the value of land.

Political parties in Japan are divided not only on the subject of land tax revision, but even more on that of its reduction. The tax of $2\frac{1}{2}$ per cent. on the value of the land is a heavy draft on the resources of the small farmer, as it requires at least 25 per cent. of his net crops * of rice, and in some cases 30 per cent. or even 35 per cent. It has been calculated that, if the small farmer of this country were to reckon his wages at the market rate, he would cultivate his rice land at an absolute loss; and it is, therefore, not to be wondered at that the farming class, through their representatives in Parliament, are making every effort to reduce the tax to 2 per cent.

As a matter of fact, there is little opposition to the measure except that of necessity. The Japanese have exhausted every means to raise taxes; and, since they are forbidden by treaty to increase duties on imports, they are forced, unless they curtail expenditure, to continue the heavy tax on land.

Besides the national land tax, yielding above 40,000,000 yen to the national treasury, there are various local rates and charges that fall chiefly on the land. These are the rates or taxes of the *ken*, or prefecture (*chihozei*), of the *kori*, or *arrondissement* (*gumpi*), and of the *mura*, or town (*chosonhi*), and of the city (*sihi*). What these rates amount to on the average is impossible to state with accuracy, since they vary not only

*Not, however, including the local taxes.

from place to place, but also from year to year. The *ken* tax is generally heavy, and is levied for the maintenance of police, local roads, bridges, canals, embankments, prisons, charity, education, and for other local purposes. The *kori* tax is usually small, and is expended on the less important roads, the improvement of local industries, and other matters of a wholly local character. The *mura* taxes or rates vary extremely from one year to another: they are levied for the support of elementary schools, the proper irrigation of rice lands, the fire service, public health, and many other purposes. All of these taxes or rates are determined by the local assemblies,* and are entirely independent of the national administration. According to the best sources of information, the total amount of local rates and taxes paid in the year 1884-85 were 37,000,000 yen, a sum nearly equal to the national land tax. This agrees with the general opinion of farmers, who reckon the various local taxes to be about the same as the national land tax.†

Next in importance to the national land tax is the *saké*, or rice-beer, tax. *Saké* ‡ is the national drink of Japan, and is consumed daily in nearly every household of the land. Even in the feudal period there was a slight tax on *saké* (*miyogakin*), generally, however, distributed in charity. In the early years of the Restoration this tax was increased to strengthen the scanty resources of the newly established government, but

* These local assemblies are the *kenkai* (of the prefecture), *gunkai* (of the *arrondissement*), *chokai* (of the town), *sonkai* (of the village), *shikai* (of the city), and *kukai* (of the ward).

† The American or European is amazed at the enormous taxes that the land bears, especially when he takes into consideration the ratio between the population and the cultivated land of the empire. Excluding the northern island, Hokkaido (or Yesso as it was formerly called), which is very sparsely populated, the whole area of Japan is about 115,000 square miles, of which less than 12 per cent., or 13,000 square miles, is cultivated, the rest being forests, mountains, or wild moors. On this small area no less than forty million people find a subsistence. This is incomprehensible until one sees the untiring diligence of the Japanese farmer and his care to make use of every foot of ground. In many parts of the island (about one-fourth of the cultivated area) two crops a year are raised, this materially compensating the farmer for his want of land.

‡ *Saké* has the appearance and somewhat the taste of sherry, but is harsher. Generally, the best rice is used in brewing it, but it varies much in quality. Formerly the *saké* brewers formed the richest class in Japan, and even at present they are the local capitalists.

the tax was badly administered and only small amounts were collected. For every 100 *koku* of rice used in making beer, the insignificant tax of 10 yen was levied; but this was withdrawn, and a tax of 5 per cent. on the price of the quantity sold was substituted. Finally, about 1876 a tax of 2 yen per *koku* of *saké* (40 gallons) was imposed, and the receipts began to have some importance in the budget. This rate lasted until 1883-84, when it was increased to the following rates: on ordinary *saké*, 4 yen per *koku*; on distilled *saké* (similar to brandy), 5 yen per *koku*; and on remanufactured *saké* (*mirin*), 6 yen per *koku*. Besides this tax on the quantity made, each brewer of *saké* pays a patent tax amounting to 30 yen a year for each building. The revenue derived from the *saké* tax is about 15,000,000 yen per annum, and ever since 1884 it has been remarkably steady. The result, however, of the great increase in the rate of taxation has been to diminish seriously the production of *saké* and to concentrate the business into fewer hands. Year by year the small breweries and distilleries are disappearing, while the larger ones are enlarging their capacity. At the present time the number of breweries are not much more than one-half of what they were ten years ago, having diminished from 27,000 to less than 15,000 breweries. The quantity of *saké* brewed has decreased in much smaller ratio during the same period. This is no doubt partly due to the extraordinary amount of officialism that the government has seen fit to throw in the way of *saké*-makers. Inspection by the officials is frequent and vexatious. As soon as the term of *saké*-brewing is over (a period lasting from November until the end of February), all the machinery, boilers, presses, etc., used in the brewery are wrapped up in paper, stamped and sealed by a government officer. These cannot be touched until notice is given by the official. The books can be demanded at any moment to see if the quantity sold squares with the quantity reported to the government. A still more vexatious rule, and one to which there is much opposition, is that no one can engage in the business of brewing without the names of five other brewers as indorsers of his license. The effect of this ruling is to make a close monopoly of the brewing business, and this tendency, it is said, is becoming more pronounced every year.

The land and *saké* taxes are by far the most productive in Japan, as all the rest, seven or eight in number, do not yield much more than the *saké* tax alone. Among the more important of the minor taxes are the customs, or duties, on imports and exports. When the ports of Japan were thrown open to foreign trade 1858-59, it was provided by treaty that duties should not exceed 5 per cent. ad valorem, since it was feared that Japan might revert to her former policy of exclusion by imposing prohibitive duties on foreign products. Until this treaty is revised, the rate of duty cannot be changed; and thus Japan remains in the anomalous position of raising only an insignificant fraction of her total revenue from customs.

Even with this moderate tariff of 5 per cent., there is a considerable free list, including many articles that are dutiable in the United States, as, for instance, works of art, books, and made-up clothing. Among the exports tea and silk produce the bulk of the revenue. The receipts from customs have slowly grown with the expansion of the commerce of Japan. In 1880-81 they furnished about 2,500,000 yen to the treasury, while in 1890-91 they brought in more than 4,000,000 yen. As soon as the present treaties are revised and Japan recovers tariff autonomy, there is a wide consensus of opinion that the import duties will be increased, and that the additional revenue will be applied to lessen the burden of the heavy land tax.

The tax on tobacco is a small but steady source of revenue. There was a slight tax on tobacco in the early years of the Restoration, but the present law dates from the fifteenth year of Meiji (1882). According to this law, tobacco manufacturers and wholesale dealers pay an annual tax of 15 yen a year, while retail dealers pay a tax of 5 yen. This part of the tax yields but a small sum to the treasury, and the bulk of the revenue is furnished by the specific tax on tobacco. The rate of this tax varies with the quality of tobacco, of which there are three grades, the lowest costing 25 sen or less per 100 mommé (13¼ oz.), the second from 25 to 50 sen per 100 mommé, and the best more than 50 sen per 100 mommé. On the first the tax is at the rate of 4 sen, on the second 5 sen, and on the last 6 sen per 100 mommé. The tobacco may be put up in

packages of nine different sizes, the smallest being 5 mommé (about 10 drams), and the largest 100 mommé ($13\frac{1}{4}$ oz.). Each package has its appropriate stamp of a particular color, so that there are no less than eighteen differently colored stamps for the various qualities and packages of tobacco. The name and address of the manufacturer are required to be printed on each package, and in addition to this precaution the government reserves the right of inspecting the books at any time. The receipts from tobacco are only about 1,500,000 yen a year.

This amount of revenue received on an article of practically universal consumption in a nation of over forty millions is certainly very small, but it is explained in a measure by the extreme moderation of the tax. The English tobacco tax is more than fifteen times heavier than that of Japan; while even the tax in America, at present abnormally small, exceeds it. Another reason is that the Japanese, though nearly all smokers, consume but little tobacco compared with European or American smokers. Two or three whiffs exhaust the tobacco in their tiny pipes.

A tax peculiar to Japan is the tax on *shoyû*, a sauce used in cooking almost every article of food that the Japanese eat. It is made in breweries in much the same way as *saké*, and the same regulations generally apply to the collection of the tax. The tax on *shoyû* is 1 yen per *koku*, and in addition every maker pays an annual tax of 5 yen on every building. This tax amounts to about 1,200,000 yen a year. There is also a tax on rice malt (*koji*), a substance used in fermenting *saké*, *shoyû*, and in the preparation of various kinds of food. This tax amounts to but 50 yen a year for each maker, and yields but a trifling sum.

One of the most interesting of the minor taxes of Japan is the income tax. It is the youngest of all the measures to raise revenue, dating only from the year 1887. Since the Restoration a new distribution of wealth has taken place: many merchants, bankers, and manufacturers have acquired fortunes in their businesses, and it was felt that this class did not pay their share of the taxes. Thus the income tax was devised in Meiji 20 (1887), to make business and professional men share

the burdens of taxation with the agricultural classes. The method of assessing the income tax is as follows: In each *kori* (rural district, or *arrondissement*) and *ku* (urban district, or ward) seven men are elected as a body of assessors by the tax-payers of the district, and the chief officer of the district, or ward, presides over the meeting. This body of men divides all the citizens liable to pay the income tax into five classes, as follows:—

Those with incomes of	300 to	1,000 yen	pay	1 %
" " "	" 1,000	" 10,000	" "	1½ %
" " "	" 10,000	" 20,000	" "	2 %
" " "	" 20,000	" 30,000	" "	2½ %
" " "	" 30,000 or more	" "	" "	3 %

In spite of various precautions taken by the government to discover the true income of the tax-payers, it is admitted on all sides that the present income-tax law is extremely faulty,—probably very few men are assessed on their real income. Naturally, government officials and clerks, book-keepers in banks and factories, pay a true percentage on their salaries; but the number of this class with incomes above 300 yen a year is very small. For instance, policemen in Japan receive from 8 to 15 yen a month, book-keepers from 15 to 25 yen a month, and ordinary clerks in any wholesale or retail business from 8 to 20 yen a month. There are probably not more than twenty millionnaires in the whole empire. Since the scale of wages and salaries is so low, it is easy to see that the returns of the income tax, especially since the means of concealing the true income is easy, are not very large. As a matter of fact, the returns are only about 1,200,000 yen a year for the whole country; and the experience of Japan, therefore, is that, of all her imposts, the income tax is the most uneconomical and unproductive. Merely to determine the amount of income in each district, more than eight hundred meetings are necessary in Japan; and the receipts are so trifling that, if the tax were abolished, it would make but little difference to the treasury. Against the progression of the tax there seems to be no feeling whatever.

The income tax, however, is useful, inasmuch as it will show

the general direction of the growth of wealth in the country. It is difficult at present to make any definite conclusions on this point, as the tax has been but recently applied. The general tendency, however, for the last three years has been for the number of tax-payers to decrease, especially of the class whose incomes are below 1,000 yen. The returns for the city of Tokyo, by far the wealthiest city in Japan, for the fiscal year 1890-91 have just been made, and corroborate this view.

	<i>Number.</i>	<i>Income.</i>	<i>Tax paid.</i>
1st class (highest incomes),	43	4,238,196 yen	127,145 yen
2d "	43	1,010,507 "	25,262 "
3d "	95	1,214,259 "	24,285 "
4th "	3,613	7,841,405 "	117,621 "
5th "	16,986	7,810,720 "	78,107 "
Total,	20,780	22,115,087 "	372,422 "

Compared with the previous year (1889-90), this shows a decrease of 616 tax-payers, a decrease of 307,455 yen income, but an increase of 4,687 yen in the amount of income tax paid. From this result it would appear that the larger incomes are increasing, while the smaller ones are diminishing. The conservatives and reactionists in Japan claim that this result is due to the introduction of the demoralizing system of Western competition, which inevitably ends, they say, in the concentration of wealth and in sharper division between rich and poor.

The only remaining tax of any importance is the stamp tax. Of all the taxes in Japan, this is, perhaps, the most detailed and complex, applying differently to different legal and business documents, such as contracts, bank books, checks, notes, account books, etc. In general, however, there is a distinction drawn between the ordinary business and legal documents, such as receipts for bills, insurance policies, stock exchange certificates, and the more important business documents, such as contracts for the transfer of lands, houses, or other personal or real property. In the former case, a stamp or fixed amount is required, varying from $\frac{1}{2}$ sen to 20 sen, while in the

latter the amount of the stamp tax varies with the sum of money involved, averaging about $\frac{1}{3}$ per cent. of this sum. The total receipts from this tax, including certain registry fees, amount to about one million yen annually.

The remaining taxes of Japan are insignificant, and do not yield any important addition to the resources of the treasury. There is a business tax on banks and corporations (producing about 500,000 yen annually), a mining tax, a tax on cattle, a shipping tax, a tax on confectionery and drugs, a tax on the Rice and Stock Exchange, and various other trifling taxes. Besides these, there is the revenue derived from the government domain, the forests, the railways and telegraphs. The first produces about 400,000 yen annually, while the two latter yield a profit of over 3,000,000 yen a year. The total revenue from all sources, including the profits derived from the government domain, is generally 75,000,000 yen annually; and it is a proof of the rather sluggish condition of Japanese industry that there has been scarcely any variation from this figure for the last eight years. There are but two sources of income to the treasury that show any marked tendency to increase, the receipts from customs and the earnings of railways. The latter have been very profitable, and, with every step in the economic development of Japan, will continue to be a greater source of revenue to the treasury.

Even if there were further sources of revenue as yet untouched by the government, it is doubtful whether the government would dare to utilize them. At present a large majority of the people represented in Parliament are in favor of retrenchment of expenditure. At the last session this party succeeded in curtailing the expenditure of the government to the extent of 6,000,000 yen, and they hope to make the reduction to 10,000,000 yen. If they succeed in this effort, the land tax will certainly be cut down to 2 per cent. Whether this larger reduction be wise or not, it is certain that at present Japan has far too much administrative machinery. In this respect she closely follows the practice of the continental nations of Europe, especially France and Germany. The government service, already congested, attracts nearly all the talent of the ambitious young men. There are thousands of the younger

generation that are waiting for the opportunity of getting government appointments, and the policy of the government tends to foster this ambition by increasing its service and strengthening its hold on private industry. Thus individual enterprise lacks energy, and, though Japan shows wonderful progress in many directions, still in material development she remains far behind western nations.

GARRETT DROPPERS.